The MORTGAGE BANKER

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WHAT ARE MORTGAGE BANKING'S PROBLEMS TODAY?

An Editorial

THE chief difficulty of the business of making real estate loans is, and probably always will be, its slowness to adapt itself to the changes of the times. Unlike enterprises which are based on rapid turn over and immediate cash or short time settlements, the mortgage banker is engaged in making long time contracts at fixed interest rates, with fixed repayments and with a definite limited privilege of prepayment. The rate for mortgage money, therefore, cannot immediately follow the constant changes in the price of borrowed money but must remain above the market in periods of a sudden decline of rate and can and does remain under the market in times of rapid increase of general interest rates.

S. M. WATERS

Impose upon these circumstances the little understood fluctuation in the amount of funds available for mortgage lending and the wholly baffling variation in the demand for mortgage money and we have a state of affairs out of which grow all of the difficult problems facing the mortgage banker in his effort to get a fair rate for his services and build an organization of lasting value to his clients.

The particular ways in which these difficulties today express themselves are:

First, a super-abundance of funds for mortgage investment in the hands, not only of the institutions experienced in mortgage business, but of newcomers who haven't the caution that experience teaches.

Second, a very small demand for loans because of the inexplainable delay in the revival of building.

Third, a typical borrower's market, resulting in extremely low rates and the expectation of amounts that in our experience seem to be dangerous when compared with what we know is the market value of the securities.

Lastly, a definite unwillingness on the part of borrowers to bear any part of the necessary expenses incident to the making of a mortgage loan.

What can the Mortgage Bankers Association of America hope to accomplish in solving these difficulties and, particularly, *what can be done to that end by the program of the National Convention in October of this year?*

There is some hope of answering these questions if we keep clearly in mind the rules we must follow in building a successful mortgage business, which are—the making of loans of such percentage of value and upon such class of securities as we know by experience have the best possibilities of success; clearly understanding the responsibilities imposed upon us by our principals and having the principal recognize and understand his own risks and responsibilities; and insisting upon having out of each transaction sufficient compensation to make the business worthwhile operating and maintaining.

The Annual Convention of the Mortgage Bankers Association of America is the only place of meeting for the mortgage banker and his client, the institutional investor, where the constantly changing difficulties of the business can be discussed, where views can be exchanged on methods of dealing with these problems, and where the member can get first hand information on conditions outside of his own immediate territory.

Attendance at the Annual Convention will, this year, be limited to members and a few invited guests. The program will be devoted to a few general addresses by prominent men on subjects interesting to us all, but largely to group conferences made up of sections of our membership devoting themselves to specialized lines.

Detroit is a splendid convention city. The Statler Hotel offers unusually favorable accommodations. Plan to attend the Convention October 4, 5, and 6.

S. M. *Waters, President.*

WHAT IS THE PRINCIPAL REASON MORE PEOPLE DO NOT BUILD HOMES?

Here Are Our Members' Answers to This and Other Timely Questions

THE principal reason why the long-awaited boom in residential building hasn't materialized is neither higher labor and materials cost nor high taxes but fear of continued employment.

Whatever rent increases occur during the remainder of this year will be in single-family houses but, even here, the prospects are none too bright.

Unabsorbed real estate is being sold more rapidly than many believe.

These are three significant conclusions to be drawn from the recent study made among members of the Mortgage Bankers Association of America in 65 representative cities. The tabulated results of this study are given here for the first time.

Uncertainty over continued employment is the principal reason why more people do not build their own homes.

A Feeling of Insecurity Today Is Widely Prevalent

Ninety-seven percent of our replying members cite "fear of holding their jobs" as the primary reason why people are afraid to embark on home ownership, and a large majority of them cite it as the "most important reason by far." Next in importance is the "high cost of labor and materials," with 74 percent citing it as a deterrent to more new building. But, on this point, there was a far from uniform opinion. Of the 26 percent of the members replying who do not hold labor and material costs too high, many declared they felt that this factor has been "highly over-exaggerated" and a considerable number declared they "do not wish to see building costs reduced."

Of the 74 per cent who view labor and material costs too high, an important number view this factor as one "that will take care of itself and become adjusted" and say it is by no means the most serious.

The third most important reason given is that "you can buy cheaper than you can build" with 67 percent of the replying members citing it as a principal reason. However, this condition is apparently disappearing faster than most people realize. Another fact turned up by the survey indicates that "overhanging" or unabsorbed real estate is being sold fairly rapidly.

The study also showed that 46 percent of the replying members view high taxes as a detriment and 28 percent believe "that renting has become relatively more attractive than ever before." The relatively few citing the latter reason is somewhat surprising, in view of the widespread belief, particularly in governmental circles, that a "profound change in living habits has come over the American people who are today more definitely a renting class than ever before." Apparently the American people have not changed much regarding home ownership. They still prefer to own rather than rent—if they can afford it. A few members thought "war" was a determining factor. Many cited "lack of down payment" but none cited difficulty of financing.

The fact that no MBA member cited lack of financing is significant. It is probably no exaggeration to say that this is one of the very few periods in our history when no one has had occasion to say that he "can't borrow the money because rates are too high." The money is available—in abundance, but reliable borrowers are scarce. That won't be news to any mortgage lender.

The next part of our study had to do with unabsorbed real estate—or the "overhang" as some like to call it. There is still a lot of it on the market, but our members seem to feel that it is being disposed of much quicker than is supposed.

Real Estate "Overhanging" the Market Is Being Sold

Of the Association's members replying to our poll, 71.5 percent declare that unabsorbed real estate is being sold but, in a majority of cases, this absorption "is slow." Only 28.5 percent say that this factor is unchanged and continues to act as a deterrent to further new building. In all four geographical sections of the country the majority opinion was that unabsorbed properties were being sold but the strongest opinion was from the 32 Middle Western cities represented in the study.

The amount of real estate already absorbed over the country is probably somewhat higher than generally believed. In the 65 cities surveyed, it was shown that the average amount of the real estate "overhang" already absorbed by buyers was 68 per cent of the amount on the market. Highest rate of absorption was in 32 Middle Western cities where the average was 88 percent. In 11 Far Western and Mountain cities 66 percent has been absorbed, in 12 Southern cities 65 percent has been sold, and in 10 Eastern cities the average was 54 percent.

Unabsorbed real estate, much of it in the hands of unwilling owners, is always a drag on a new building movement. Our data indicates that more people are becoming conscious of the fact that there is a tremendous amount of good real estate for sale today, and that a great part of it can be bought on such terms, and under such conditions that make its purchase equally as attractive as building. Further absorption of such property will constitute a really important incentive to more new construction.

What Price House Is the Most Popular? Here's the Answer

The next section of the study was concerned with what priced house is being built most often over the country. We found that, roughly, this was a $5,000 house. Now this may seem to be too low to many of our members, but if our data is broadly representative, $5,000 is the figure. The average new house being built is costing around $5,418 and the average old house being sold is priced at around $4,957. The highest-priced new house is being built in 32 Middle Western cities where an average cost of $5,966 is shown. In 10 Eastern cities the average cost was $5,863 and in 11 Far Western and Mountain cities the average cost was $5,568. The lowest cost in new-house construction was shown for 12 Southern cities and averaged $4,277.

Sales of existing houses are showing the same trends in these four sections. The average sale in 32 Middle Western cities is being made at around $5,266, while the next highest figure, $5,033, is for 10 Eastern cities. The average old house being sold in 11 Far Western and Mountain cities is around $5,000 while the lowest average sales price recorded in the study was $4,531 for 12 Southern cities.

These figures may indicate that the country is still building houses for the smaller proportion of its citizens. The National Resources Committee's study revealed that 70 percent of urban nonrelief families have incomes of less than $2,000. One-half of these urban families cannot build houses costing more than $3,500 to $4,000. Fully two-thirds of the potential market for new houses in this country are probably excluded from every prospect list because they cannot afford them. Either housing costs must come down in some way or national income must go up considerably before there can be an effective solution, is the opinion of many.

These figures, taken from data supplied by our members, seem to substantiate statistics collected by other organizations and which all point to the one general conclusion that, whatever the cause, we seem to be doing our building for a minority of our population.

We Aren't Very Far Along on Chawner's 600,000 Houses

The other day Lowell J. Chawner of the Department of Commerce declared that this country would have to build nearly 600,000 houses and apartments annually in the next five years to keep up with the growing number of families. Of course, we aren't doing it or even approaching it. In our last issue we quoted Secretary Perkins' data showing that 77,000 units were built in the first quarter of this year.

We are far behind, and the building that is being done is for the groups far above the $5,000 house class.

A clearer view of just how far out-of-reach present day construction is for most of our prospective home owners can best be gained from data taken from the Social Security Board. This agency reports that for 1937 the average annual earnings of more than 30,000,000 workers covered by the old age insurance provisions were $890. Wages in excess of $3,000, the maximum on which the security taxes are paid, were not counted in the survey.

The Board finds that about 11,650,000 workers earned, in that year, less than $500 a year, and the earnings of 8,500,000 of this number were less than $300!

Not many of these people can build any kind of house!

Dr. William H. Husband of the Federal Home Loan Bank Board, has made some interesting observations on this point and a few days ago pointed out that our families are increasing faster than houses are being built for them. That isn't news of course, but some of his conclusions are.

"We are in a period where the annual increase in the number of families is well in excess of the annual increment of housing units.

"While our population has increased at the rate of only 900,000 persons per year since 1930, as compared with 1,700,000 per year in the decade of the twenties, the number of families is now displaying a marked increase."

A recent study shows that since 1930 the total population of New York City has increased by approximately 645,000, or slightly less than 10 percent. During the same period, however, the number of families in that city is estimated to have increased by 330,000, or nearly 19 percent.

"This has been caused both by marriages which were deferred because of earlier unfavorable economic conditions and also more naturally by the changing age distribution of our people," Dr. Husband says. "Precise figures are not available to measure the increasing number of families per year, but studied estimates have been formulated which indicate that non-farm families are currently increasing at the rate of 500,000 per year. This is well in excess of the number of new housing units provided. For the year 1938 the Department of Labor estimates that 347,000 new housing units were provided, as compared with 296,000 in 1937."

Housing Need Only Part of the Answer; Income Is Foremost

This "paradoxical" situation, he thinks, must obviously mean that we are failing to maintain the housing standards which prevailed in 1930.

"The failure of any marked expansion of new residential construction to make its appearance is puzzling to those who are primarily conscious of social need alone. It is less difficult for those economists who still look to the market as the chief determinant of business activity to comprehend some of the reasons for the somewhat disappointing expansion of construction.

"It is recognized that need alone cannot become the source of effective demand, but that purchasing power and means are essential to vitalize buying activity.

"Viewed from this more realistic light, one cannot escape the limiting influence of the distribution of income which shows that most of our people cannot afford to purchase new houses at the prices now being asked."

He quotes the table compiled by the National Housing Committee of the income in 1935 of American non-farm families:

Annual Income Groups	Number of Families	Percent
Under $500	4,986,391	20.6
$500 to $999	3,848,720	15.9
$1,000 to $1,499	5,494,713	22.7
$1,500 to $2,999	7,939,496	32.8
$3,000 and over	1,936,463	8.0
Total	24,205,783	100.0

"Since it is believed that the family of relatively small income should not purchase a home greatly in excess of two and one-half times its annual income, it must be apparent that the large part of our people are automatically eliminated from building new homes on a sound basis.

"In short, in the face of a pressing and admitted social need, little can be accomplished unless the costs of construction are reduced to a point which makes possible the tapping of the lower income market."

Little Likelihood of Rent Gains During Rest of 1939

The final portion of this MBA study to be discussed here has to do with rents. Rents are still pretty low in many sections of the country. They never participated in the recovery movement to the extent other prices did. Yet, discouraging as it may seem to many who know that they should be higher, there seems little or no prospect for that this year. Beyond that we made no effort to secure opinions because we know that very few people try to see farther than six months ahead these days.

Any rent increase that may take place during the remainder of this year would most likely be for single-family houses and are least likely for apartments. Of those answering our poll, 18.2 percent declared that they expect to see rent increased this Fall in single-family houses. Only 6.3 percent foresee higher rentals in apartments and 11.4 percent expect increased rentals for commercial properties generally.

The more likely prospect for higher rentals in single-family houses is no doubt due to the fact that this type of housing is in greater demand, and, during the last period of extensive building, was not as overbuilt as apartment construction. Occupancy over the country for both apartments and single-family houses is relatively high, but, like other commodities and services, must follow national income despite the growing tax burden on real estate.

THE INFLUENCE OF FHA ON MORTGAGE LENDING

An Official of the Agency States the Case as He Sees It

By MAURICE R. MASSEY, Jr.

IT would be absurd to contend that the financing methods used in FHA-insured mortgages are original in any respect. Monthly payments on loans which included principal, interest, taxes, and hazard insurance were known long before the advent of FHA. The granting of mortgages for long periods of time likewise was not new. These features of the Insured Mortgage System were worked out long ago, and their adoption by the Federal Housing Administration represented nothing more than a recognition that they were superior to alternative methods of financing.

The same is true, by and large, of the generally lower interest rates now prevailing on mortgages. While many may claim that the FHA has been responsible for this reduction, the fact remains that the maximum rate stipulated in the National Housing Act was made feasible not by legislation but by actual market forces which carried all rates downward.

Perhaps the general abandonment of the second mortgage *was* caused by the FHA. Still, the tendency to make mortgages for relatively high percentages of appraised values of properties was present in lending policy before the National Housing Act was enacted in 1934.

Furthermore, the idea of guaranteeing mortgages is not new. Mortgage guarantees have been available from private sources for many years.

While the Federal Housing Administration cannot lay claim to originality in these respects, it nevertheless has had major effects on mortgage lending policy and has been responsible for profound changes in the attitudes of mortgage investors and home buyers.

By assembling and incorporating into the Insured Mortgage System the best practices of traditional lending procedure, it has done much to standardize the essential elements of good practice and to obtain their adoption throughout the country. Variations in interest rates, mortgage terms, and methods of payment have been ironed out to such an extent that we have mortgages competing on a uniform basis in a national secondary market.

Perhaps even more important has been the influence of the FHA on mortgage lending policy as it relates to the selection of mortgages for investment. FHA's integration of traditional best practices and the addition of new concepts and techniques for the analysis of loan proposals has been of great importance. New emphasis has been given factors and relationships which were frequently neglected in the wild competition of former mortgage markets. The devices which have been introduced for controlling and bringing about consistency in decisions are sufficiently significant to merit enumeration.

MR. MASSEY is Senior Underwriting Supervisor of FHA and his comments reflect his own views as well as those of Frederick M. Babcock, Assistant FHA Administrator. Perhaps FHA's greatest success, he indicates, is its standardization of general mortgage practices. Another significant achievement, in the author's opinion, is the agency's influence on mortgage policy in the selection of loans for investment. But the greatest change of all, he says, is that no longer are mortgages merely grouped into two classifications —good and bad. FHA rating has made a closer distinction possible. Mr. Massey spoke at the recent Mortgage Study Conference at Ann Arbor, Michigan.

Today, for example, the emphasis in mortgage lending is placed on risk, whereas formerly it was very generally assumed that valuation of the property offered as security and a comfortably low loan-value ratio were the only essentials to good lending policy. Under that assumption the character of the borrower and the nature of the junior financial structure were disregarded and the loan was considered sound, *ipso facto*, if it bore a low ratio to someone's valuation of the property.

This idea has lost much ground today. It is increasingly unusual to find lenders who will throw their entire reliance on valuations. We know today how inaccurate the best valuation may be and, what is much more important, we recognize that the relative safety of mortgage investments is measured by a number of factors which do not affect the valuation at all. The FHA risk-rating system is designed to measure risk or relative safety of the investment directly. The system includes the vitally important ratio of loan to valuation, but the final measurement, which is a *qualitative* rather than *quantitative* expression, is by no means controlled by that factor. Valuation therefore is recognized as one, but only one, of a number of operations in the risk-rating process.

These changes in the machinery used to select mortgages for investment are interesting phenomena in the business of mortgage lending. No less interesting is the growth of the idea that income potentialities are of greater importance than capital values.

Under this conception, for example, it is more important to estimate the probable relation between the net rents of an apartment and the debt service on the proposed mortgage than it is to determine the ratio of the principal amount of the loan to the estimate of the capital value of the security.

We now know that the character of a future net income stream is as important as the estimated amount of the income. To illustrate, if we have a store property with an expected annual net income of $8,000 and a theater property with an expected net income of $8,000, we would not consider them equivalent risks. The store property's income is susceptible to much less fluctuation than is the theater property's income.

We have learned to give a great deal of weight to the significance of the expense ratio as a measure of investment risk. If the gross income of the store is $12,000 and the expenses are $4,000, the net income will be $8,000 and the expense ratio will be 33 percent. If the gross income of the theater is $22,000 and the expenses are $14,000, the net income will be $8,000 and the expense ratio will be 64 percent.

Why is the expense ratio important? Assume that gross incomes were to decline only 10 percent; that is, to $10,800 for the store and to $19,800 for the theater. Then the store's net income would be $6,800, a decline of 15 percent, and the theater's net income would be $5,800, a decline of 27½ percent. Expense ratios tend to indicate the susceptibility of net incomes to fluctuation.

Still another example of the change in emphasis is in point. The probability or even certainty of price and value fluctuations in the future is now not only accepted but is measured. The means by which it is measured are admittedly crude, but nevertheless such measurements are being attempted by lenders and by the FHA. Such things are dealt with in terms of probability, not possibility. The results of such analyses are customarily expressed now in terms which compare one situation with another. We set up conclusions against relative scales, not absolute scales. We discuss the relative stability of different economic background areas and different residential districts.

Loans No Longer Classified as "Good" and "Bad" Loans

This change in emphasis has led us to yet another. We are coming to feel more confidence in loans in districts which show relative stability. This sounds axiomatic to us today, but it was not so many years ago that we asked appraisers to report on the trends of value levels within a district, the preference being for loans in those districts in which upward trends were apparent.

Today most of us are apt to dislike the likelihood of any considerable fluctuation of values within a district. We subscribe to the idea that most residential neighborhoods trend downward most of the time. And we rivet attention on the degree to which the district is susceptible to decline and the probable rate of decline.

Perhaps the most interesting change in emphasis in lending policy as it relates to the selection of mortgages for investment, however, has been the abandonment of the ancient idea that loans fall into two classes only—the good and the bad. Mortgage risk rating has brought home forcibly the fact that loans cannot be classified simply as black and white. We now see that there are numerous shades of gray in between.

Several other readily apparent changes may be mentioned. The relative importance of the borrower has increased. The decisions of lenders are influenced considerably more by the characteristics of the mortgagor now than formerly. We were once tempted to accept good real estate security as a substitute for a qualified borrower. This faulty emphasis contributed to the bad custom of home purchasers to overbuy, to bite off chunks too big for them to digest.

Now we consider the amount, source, and stability of a family's income; we analyze the motivation of the borrower and his attitude toward this and other obligations; and we find ourselves vitally concerned with the long-range probabilities of satisfactory future income as indicated by the borrower's education, training, age, health, and numerous other factors which affect his employability. The cash equity or cash investment requirements of the FHA are not imposed primarily to do away with second mortgages. They are related more to the fact that a borrower must have sufficient motivation to hold him to the deal when the strain occurs.

A most gratifying change in emphasis has occurred with respect to the environment of properties offered as mortgage security. Many mortgage lenders used to feel that their troubles would all be solved if they confined their loans to well-constructed buildings. The emphasis was on specifications, workmanship, and concrete mixes. But real estate is location before it is anything else, and in recognition of that fact we are tending today to emphasize location as such. If forced to choose between good construction in a poor location and poor construction in a good location, we are inclined toward the latter. Fortunately, we have really placed added emphasis on good location without in any way losing our interest in good construction. We now see the vital part location plays in contributing to investment safety or in introducing investment risk.

We Know More About Real Value Than Ever Before

Valuation, as it relates to mortgage lending, also has undergone some revision. We have long since departed from the dangerous assumption that values really change but little through the years. We hear less frequently the expressions "normal value" and "stabilized value." The mortgage lender of the past solved his valuation problem to his own satisfaction by placing his confidence in men who were presumed to "know values" or men who were known to be honest and conservative. How the appraiser went about the making of his estimates, and which of the many diverse concepts of "value" the appraiser subscribed to, were not investigated. Value was value.

"Jones is a reliable man," said the typical lender, "therefore we have no particular appraisal problem."

But Jones, personally honest and sincere, too often was not a reliable man. If he had an engineering or building construction background, he usually estimated the replacement cost of the property and reported it as the value. If he was a real estate broker, he reported the price he figured it would probably bring in a sale.

We have never really been honest with ourselves with respect to this business of appraisal. The wide diversity of answers that the Joneses gave us was appalling. Today we not only have sound concepts available as guides but we find that these concepts have been generally adopted and are being followed.

"Substitution Theory" Helps Prevent Over-Valuation

For example, we have developed the substitution theory. This theory puts the replacement-cost method and market-price data in their proper relationship to valuation. An estimate of the cost of replacing a property is not an estimate of the value of the property. Neither is an estimate of the price which a property will command in a sales transaction an estimate of its value. A correct valuation process, for mortgage lending purposes, must now embrace a forecast of probable future net incomes in dollars or in terms of valuable services and the translation of the predictions, usually by capitalization, into estimates of corresponding present value.

Regardless of probable future income-producing capacity, however, the substitution theory holds that no property may be properly appraised at a figure in excess of the amount at which an equally desirable and substantially identical property can be obtained by buyers in the same market and at the same time.

Such buyers have two ways of obtaining such substitute properties. They may buy lots and build or they may purchase existing properties now offered in the market. In no case are they warranted in paying more for the subject property than they would pay for substitute properties acquired in one or the other of these ways.

Thus, the substitution theory provides us with control factors to prevent over-valuation. The general acceptance of the theory undoubtedly will prove an important factor in future mortgage lending policy.

THE TYPICAL U. S. CITY HOUSE IS 25 YEARS OLD

And Has Fewer Modern Conveniences Than You Think

U. S. real estate property, the nation's most valuable physical asset except her land and natural resources, is in a fairly bad state of repair. The past decade of inactivity in construction and rehabilitation has taken a toll of obsolescence far greater than probably the average mortgage man realizes. Lenders in large metropolitan centers are familiar with the extent to which "blighted" areas have crept forward but not all of them know how decadent some of these sections have become for human habitation. It is a little startling to learn that only about 40 percent of urban residential dwellings are in good condition and that another 14 percent need major repairs badly—so badly, in fact, that a portion of them will soon be pushed into the same class as the 2.3 percent of our dwellings that are now considered unfit for use.

Survey Covers Five Million Structures in 203 Urban Areas

The WPA can be thanked for making the first extensive census of housing ever undertaken in this country. The study began over four years ago and is probably the most complete source of data on the physical characteristics of housing in the United States.

The report is made up of real property inventories conducted in 203 urban areas during the years 1934-1936, covering approximately the number of dwelling units sufficient to house 45 percent of all city families enumerated in the 1930 census. *More than* 8,000,000 *dwelling units and* 5,000,000 *dwelling structures were surveyed and information has been tabulated on the following subjects: size, type of construction, age, condition, value, and mortgage status of residental structures; and the number of rooms, the number of persons per room, sanitary facilities, and monthly rental of dwelling units.*

The data compiled can be taken as accurate and timely from the standpoint of *physical characteristics* today but during the period when it was made there have been changes regarding occupancy ratings and variations in general real estate and business conditions.

"There are many definitions of substandard housing, but for the purposes of this survey the factors which rendered a dwelling unit below the standard requirements were the absence of sanitary facilities, unsafe condition of the physical structure of the dwelling, overcrowding, and the presence of extra families. Applying this norm to all areas of the country, the cities in the Southeastern region were found to have the largest proportion of substandard units, while housing in the Northeastern region was relatively more adequate. Western cities fell into an intermediate category, with substandard housing somewhat more frequent in the Southwest than in the Northwest," says the *FHLB Review* in commenting on the study.

The study showed that only 39 percent of the more than five million structures inspected can qualify as being in good condition (see chart). Nearly 45 percent need minor repairs and another 14 percent need major rehabilitation. New York City, strange to say, showed the highest percentage of buildings in good condition—this in view of the fact that New York has more slum areas than any other city.

Mortgage lenders will be interested in the statistics which were accumulated on the age of existing dwellings. These figures show that *the typical American urban residential building is approximately 25 years old. More than 50 percent of the structures surveyed were built prior to 1915.* It was also discovered that *almost one-quarter of the dwellings were constructed in 1894 or before.* Geographically, the Northeastern region, excluding New York City, has the largest percentage (59.5) of structures built more than 25 years ago. There was little difference between the Southeastern and Northwestern areas in the number of old residential properties. The Southwestern section of the United States had the lowest proportion of older dwellings with only 30.6 percent having been started before 1915. New York City had an unusual chronological sequence in its structural age distribution with 32 percent of its dwellings having been erected prior to 1895, and 31.7 percent since 1925.

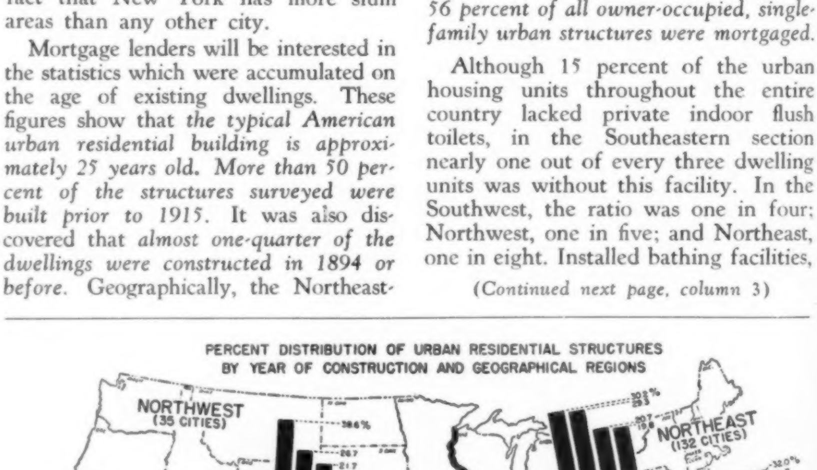
Large Percentage of Homes Lack Primary Necessities

The survey shows that of all urban dwelling units canvassed, *15 percent had no private indoor flush toilets, 20 percent were without private baths or showers, one-third of all dwelling units in the Northern half of the United States lacked central heating facilities, and that 56 percent of all owner-occupied, single-family urban structures were mortgaged.*

Although 15 percent of the urban housing units throughout the entire country lacked private indoor flush toilets, in the Southeastern section nearly one out of every three dwelling units was without this facility. In the Southwest, the ratio was one in four; Northwest, one in five; and Northeast, one in eight. Installed bathing facilities,

(Continued next page, column 3)

PERCENT DISTRIBUTION OF URBAN RESIDENTIAL STRUCTURES BY YEAR OF CONSTRUCTION AND GEOGRAPHICAL REGIONS



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JULY 15, 1939

TNEC ON BUILDING COSTS

One thing you can expect to hear a great deal about in the months to come is why there isn't more building for the low-income groups and less for the better-paid citizens. The Temporary National Economic ("Monopoly") Committee has turned its attention to that subject and some interesting opinions are coming from the hearing. Apparently some expect these hearings to show that materials and labor costs are too high, that there is often collusion between builders and unions, that we need mass production methods. All of these things can no doubt be shown, but when, as and if, they are, does it mean that the government must step in and do a building job?

FHA has just reported that 21 percent of all families acquiring homes through insured mortgage loans last year had annual incomes of less than \$2,000. Forty-seven percent had incomes of less than \$2,500, and 62 percent received less than \$3,000 per year.

The TNEC's findings on construction and building costs ought to constitute an interesting study, one well worth the consideration of mortgage men. In an early issue we plan to carry a symposium of views of MBA members which will give their views as to construction costs and how they should be brought down—if they should be brought down. Surprisingly, some feel they aren't too high.

MBA GOVERNOR

John P. Hogan

John P. Hogan was elected to the Board of Governors of the Mortgage Bankers Association of America in 1934. He is Vice President and General Manager of Standard Mortgage Corporation of New Orleans which specializes in urban mortgages in the principal cities of Louisiana and Mississippi. This company is loan correspondent of several large life insurance companies.

Mr. Hogan is Vice President and Secretary of Waguespack, Pratt & Hogan, Inc., one of the largest real estate firms in the South, and Vice President of Parkerson & White, Inc., General Insurance Agents.

He was born in West Baton Rouge Parish, Louisiana, and attended Soule College and Louisiana State University. During the war, Mr. Hogan was associated with The Foundation Company in ship building and located at New Orleans. Later he was with this Company engaged in general contracting work in Lima, Peru.

TYPICAL U. S. CITY HOUSE

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which were found to be less common, followed a similar geographic pattern.

There is a lot of crowding in American housing. In 17 percent of all occupied dwelling units there was an average of more than one person per room. This was particularly true in the Southeast where more than one fourth of the buildings inspected averaged more than one person per room. In the Southwest 24 percent of the dwellings averaged more than a person per room. Doubling up of families has by no means passed. Almost nine percent of all families in the two southern areas were classed as "extra families". The national average was 5.5 percent. Doubling up is more frequent in owner-occupied dwellings.

Excluding New York City the study found that over 56 percent of all single-family urban structures occupied by owners were mortgaged. Highest percentage of mortgaged homes was in the Northeastern area where six of every ten houses were mortgaged. Largest percentage of debt free homes was in the Southeast and Northwestern areas.

In brief then, the survey shows that:

(1) the single-family dwelling constructed of wood was by far the dominant type of residential structure;
(2) over one-half of the urban buildings were built prior to 1915;
(3) 45 percent needed minor repairs;
(4) 15 percent needed major repairs;
(5) 2 percent were unfit for use as housing accommodations;
(6) 20 percent lacked proper sanitary facilities;
(7) 17 percent were over-crowded;
(8) one-third of the structures in the Northern half of the United States did not have central heating equipment; and
(9) only 43.7 percent of 1-family owner-occupied homes were "mortgage-free".

Architectural Forum estimates that, by assuming that "minor repairs" cost about \$500 each, and "major repairs" about \$1,500, the potential dollar volume for reconditioning the nation's residential facilities would approximate \$7,750,000,000—nearly six times the estimated dollar volume of residential construction during 1938 (\$1,302,000,000).

Building Reporter says: "If these percentages are applied on the country as a whole (and size of the sampling justifies such a procedure), it is found that there

(*Concluded column 2, this page*)

is a market in already-built dwelling units for about 3½ million bathtubs or showers, 2½ million flush toilets, 5 million heating plants, 2¼ million modern stoves, and 1 million sinks—not to mention the millions of board feet of lumber, square feet of plaster, cubic feet of masonry and linear feet of innumerable other materials."

This 326-page report whose official title is "Urban Housing" is available without charge from the Publications Section of the WPA, Washington.

REVIEW of the NEWS

★ HIGHLIGHTS FROM THE PRESS OF PARTICULAR INTEREST TO MORTGAGE BANKERS

The House Banking Committee approved the amendment to the Home Loan Bank Act permitting building-and-loans to underwrite first mortgages up to $100,000 on real estate used principally for homes.

* * *

Assessed value of U. S. property, subject to general and selective taxation, dropped about 15 percent from 1932 to 1937, government figures show. This was a drop from 163 billion, 317 million dollars in 1932 to 139 billion, 6 million dollars in 1937 . . . the per capita drop was $1,312 to $1,083. Highest per capita assessed valuation was, as you might expect, for the District of Columbia at $2,858, and the lowest, $195 for South Carolina.

* * *

Omagram, published monthly by the Oklahoma MBA, thinks J. Parker Evans' story in the May 15th issue of THE MORTGAGE BANKER "hits close to home. The Mortgage Bankers Association of Birmingham seems to have succeeded in doing just what the OMA is attempting in devising and *enforcing* a fair practice code.

"Do these lines from Mr. Evans' article have a familiar ring? In an effort to gain an advantage over competitors, one group will lower interest rates, or service, or commission charges, only to soon realize that their competitors for the business can and do cut still further. The rates are lowered again and again. * * * In order to get this volume loan brokers and originating offices have cut the profit lower and lower until a point is reached where the more the volume realized, the more losses to the broker. * * * It is conceivable that enough volume could be done to go broke acquiring it."

Reporting the group's last meeting, *Omagram* says: "Among suggestions made was that of establishing a uniform commission of 1 percent, that of ignoring any defiant companies, that of contacting the building-and-loans at an early date, and that of asking the committee to continue its operations. Net result: This committee has and will continue to grapple with the problem; cooperation among the members was assured; and a committee has been appointed to study the situation in Tulsa.

"The problem still lies outside the membership. Members have shown no tendency to cut rates or make rebates, and most members refuse to meet rates that fall below the profit line."

* * *

As previously forecast in this column, Thurman Arnold, Assistant Attorney General, is getting ready to move on the building industry with an anti-trust club. His view: "Producers of building materials have fixed prices either by private arrangement or as the principal activity of trade association. Owners of patents on building materials have used them to establish restrictive structures of price control, control of sales methods and limits upon the quantities sold.

"In recent years they (labor unions) have frequently been used as the strong-arm squads for collusive agreements among contractors, refusing to supply labor where the contractors' ring wishes labor withheld.

"In other cases the unions themselves have refused to permit the use of new products or new processes because of their fear that the new method might make it possible to erect a house with fewer hours of labor than the old."

* * *

If your income was 10 percent less last year than in 1937, you were average, because national income was down exactly that much. South Dakota was the only state to show an increase—1 percent—and Michigan led the slide with a drop of 23 percent.

* * *

Rents over the U. S. are now 37.5 percent higher than at the low point in early 1934. In May, they were 0.9 percent lower than May, 1938, and 6.4 percent lower than in May, 1929. American farmers owe $8,255,000,000, of which seven billion represents farm mortgages and the rest are short-term obligations. The farm mortgage debt has shrunk about 3½ billion dollars since 1929.

* * *

The Building Owners and Managers Association reports average office building occupancy now at 82.23 percent over the country . . . and that's a gain of about 0.18 percent since last October. What's happened to James A. Moffett's plan to start a big mortgage association to supply two hundred million dollars in loans? He even talked of buying the present federal mortgage association.

* * *

FHA had a birthday last month—its fifth. It called attention to the fact that it has more than 2½ billion dollars of home financing insurance on its books, that 10,000 banks and other lending institutions had helped to put it there and that 8,000,000 people had improved their housing conditions as a result. For the first time in a decade, it observed, enough new building is going up to meet the needs of increasing population.

* * *

Oklahoma's Senator Lee has a bill which would mean the government underwriting $350,000,000 in loans for the purchase of farms . . . Life insurance sales were up 9 percent in May as compared with May, 1938.

* * *

Results of NAREB'S semi-annual look at the real estate market were in line with generally accepted views: Real estate prices have softened, but activity is as high now as last year in three-fourths of cities covered . . . new suburban developments are emerging . . . interest rates are generally low, and members in a fourth of the 262 cities foresee them still lower . . . in 42 percent of these cities, higher real estate taxes are anticipated . . . in 42 percent of the cities, 6 percent mortgage rate is most common, in 41 percent, 5 percent is most common . . . another interesting thing in the report is that homesites purchased in the first four months this year were double the amount of single-family dwellings built . . . apparently a lot of people are taking the first step to home ownership but leaving actual construction until a little later.

* * *

New York's Governor Lehman vetoed the Murray bill which would have permitted banks and trust companies to invest in the obligations of public housing authorities . . . Alexander Hamilton Institute sets present unemployment at 12,090,000, about as high as a year ago . . . and further points out that it sees no inflationary movement or prospects of wage cutting in sight.

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